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Portugal: Talking Points for the Secretary of Defense

1. A parliamentary election will be held on 25 April to determine the successor to lame-duck Prime Minister Balsemao's center-right coalition government.

-- Balsemao's government collapsed last December, when the two main coalition partners -- the Social Democrats and the Center Democrats -- reached an impasse on several key policy matters. The two parties have since decided to end five years of electoral cooperation and run separate lists in April. We expect both to lose ground.

-- The Socialist Party, led by former Prime Minister Mario Soares, is the clear front runner. Recent polls suggest that it could win up to 40 percent of the vote. It will almost certainly become the largest party in the Assembly, but we doubt it will achieve an absolute parliamentary majority.

-- The pro-Moscow Communist Party may win its customary 16 to 18 percent of the vote, but it is regarded as a pariah by the other parties in the Assembly. [REDACTED]

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2. We believe that the most likely outcome of the election will be a Soares-led government based on a coalition of the Socialists and the Social Democrats.

-- Soares has indicated that he would prefer to head a broadly-based administration in cooperation with parties to his right.

-- If Soares were unable to obtain the Social Democrats' cooperation, we believe the Socialists would form a minority government that would seek parliamentary support from the center-right on an issue-by-issue basis. [REDACTED]

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3. Soares leads what is probably the most moderate and anti-Communist socialist party in Western Europe. The Socialists' eagerness to rule with the centrist Social Democrats indicates that they are contemplating no radical domestic policy initiatives. The Socialists have singled out Portugal's battered economy as their top priority.

-- The most pressing economic problem is the current account deficit, which is running at a record high of 14 percent of GDP. Portugal has adequate reserves to stave off an immediate payments crisis, but it intends to turn to the IMF for longer-term aid. Soares has pledged to devalue the escudo, raise interest rates, and increase the cost of subsidized goods as part of a plan to deal with the deficit and obtain favorable terms from the IMF.

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- The inflation rate -- currently at over 22 percent annually and rising -- is another vexing issue. The Socialists have suggested a "social pact" among the parties, business, and labor as a first step toward building a consensus on some form of wage and price controls.
- The Socialists' ability to move along these lines will depend largely on the political will of the government that emerges after 25 April. A firm Socialist-Social Democratic coalition would have a good chance of weathering the social discontent an austerity program would spawn. A weak Socialist minority government, however, might not have the necessary political clout to withstand these pressures. [REDACTED]

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4. In foreign policy we expect any Socialist-led government to maintain Portugal's strong ties to NATO and the US. Soares has been sympathetic to US and Western positions on a wide range of East-West and Third World issues. The first task of the new government in foreign affairs will be to complete the negotiation of the bilateral security treaty governing US bases in the Azores. Except for technical talks, the negotiations have been in abeyance since the fall of the Balsemao government.

- The Portuguese military, seconded by some civilian policymakers, has expressed displeasure over the amount of aid Washington has offered. The military has also requested stricter rules regarding US use of Portuguese bases.
- We believe that the Socialists want to preserve good relations with the US and if elected will place a high priority on concluding an agreement -- even over military objections. However, the Socialists probably share the widespread Portuguese perception that Washington has not recognized their country's true worth as an ally, and bilateral relations could become strained even after an agreement is signed. This in turn could lead Lisbon to scrutinize more closely than in the past US requests to use Portuguese bases in support of activities outside the NATO area -- especially in Southwest Asia.
- Southern Africa remains the secondary focus of Portuguese diplomacy. A Socialist-dominated government might be more sympathetic than the current administration to US concerns in this area. Soares, for example, has called for a pull-out of Cuban troops from Angola as part of a settlement of the Namibia question. [REDACTED]

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5. President Eanes is at present on the political sidelines. His formal powers were sharply reduced by last year's constitutional revision, endorsed by all the democratic parties. Nevertheless, he remains immensely popular and is perceived by much of the populace as an austere but caring ruler who rises above the play of partisan politics.

- A spectacular failure of the next government could set the stage for Eanes' re-emergence as an active political actor, possibly at the head of a new "Presidentialist" party. [REDACTED]

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